



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-276701

May 23, 1997

Dr. Andrew F. Brimmer
Chairman
District of Columbia Financial Responsibility
and Management Assistance Authority
One Thomas Circle
Washington, D.C. 20005

Subject: Opportunities for Improving the District of Columbia Authority's
Financial Statements

Dear Dr. Brimmer:

The Subcommittee on the District of Columbia, House Committee on Appropriations, requested that we review the fiscal years 1995 and 1996 audited financial statements of the District of Columbia Financial Responsibility and Management Assistance Authority (Authority) for completeness and adherence to generally accepted accounting principles. We found that the statements were prepared in accordance with generally accepted accounting principles used by state and local governmental entities.

We offer the following observations for the Authority's consideration in preparing its future financial statements.

First, including a Management Discussion and Analysis (MD&A) section could enhance the annual report by providing a brief and objective analysis of the Authority's performance and accomplishments during the reporting period. Although inclusion of an MD&A section is not a current requirement for state and local governmental entities, both the Federal Accounting Standards Advisory Board and the Governmental Accounting Standards Board have recently issued exposure drafts that if adopted, will require that an MD&A section be included in a reporting entity's financial statements. Further, Office of Management and Budget (OMB) Bulletin 97-01 requires an overview section, similar to an MD&A section, in the financial statements of federal agencies.

GAO/AIMD-97-83R Authority's Financial Statements

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Second, in accordance with governmental accounting standards, a reporting entity can either present balances and activity for which it has fiduciary responsibility in the primary financial statements or in a separate statement. The Authority opted to present balances and activity relating to the District's Federal Payment, Federal Appropriation for the Police Department, and the District Bond Proceeds, for which it has fiduciary responsibility, in a separate statement, entitled Combined Statement of Changes in Assets and Liabilities - All Agency Funds. We suggest that the Authority consider clearly labeling and describing in the notes to the financial statements (1) why the information was presented in a separate statement, (2) what the information represents, and (3) how the combined statement of changes in assets and liabilities for "all agency funds" relates to the amounts reported for the Authority in its financial statements.

In addition, in its fiscal year 1996 Combined Statement of Revenues, Expenditures and Changes in Fund Balance, the Authority reported its general fund revenues and expenditures using three reporting bases—actual, actual (budgetary basis), and budgeted. The Statement could be enhanced by clearly labeling or noting the distinction between these reporting bases so a reader can readily determine, for each reporting basis, what the information means and how it can be used.

Third, we offer several observations for your consideration regarding disclosures in the notes to the Authority's fiscal year 1996 financial statements.

- Note 2, entitled Summary of Significant Accounting Policies, indicated that for fund accounting purposes there are three categories of funds—Governmental, Proprietary, and Fiduciary. However, since the Authority did not report on the Proprietary Fund, deleting reference to this fund category in the notes could avoid any possible confusion to users.
- Note 2 indicated that the Schedule of Revenue and Expenditures, Budget and Actual (Budgetary Basis) was prepared on a basis not consistent with generally accepted accounting principles because of timing differences resulting from encumbrances. However, this Schedule was not part of the financial statements. It appears that note 2 refers to the Combined Statement of Revenues, Expenditures and Changes in Fund Balance. In addition, the note discusses encumbrances even though there were no encumbrances reported at the end of fiscal year 1996.

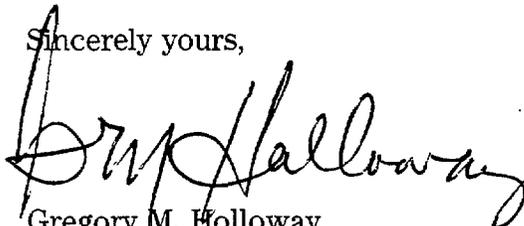
- Note 3, entitled Accounts Receivable, indicated that the amount represents reimbursement due from the District for payments made by the Authority on its behalf. Based on the Authority's mission, more detailed information on the types of reimbursement due from the District would be useful.
- Note 5, entitled Fixed Assets, explained how the accumulated depreciation amount was derived, including the depreciation method and the acquisition cost of the assets. However, the note did not explain that in accordance with governmental accounting standards, the fixed assets are reported on the Combined Balance Sheet at their net value (acquisition cost less accumulated depreciation) and, accordingly, that depreciation expense is not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance.

The Authority's Comments

We obtained comments on a draft of this letter from the Authority; the comments are included in the enclosure to this letter. The Authority agreed with the letter's findings and stated that it will consider our observations during the preparation of its future financial statements.

If you have any questions, please contact me at (202) 512-9510 or Gary Engel, Acting Associate Director, at (202) 512-8815.

Sincerely yours,



Gregory M. Holloway
Director, Governmentwide Audits

Enclosure

B-276701

cc: The Honorable Charles H. Taylor, Chairman
Subcommittee on the District of Columbia
Committee on Appropriations
House of Representatives

COMMENTS FROM THE DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND
MANAGEMENT ASSISTANCE AUTHORITY

District of Columbia Financial Responsibility
and Management Assistance Authority
Washington, D.C.

May 13, 1997

Mr. Gene L. Dodaro
Assistant Comptroller General
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Dodaro:

This is in response to your letter dated April 30, 1997. Be advised that the District of Columbia Financial Responsibility and Management Assistance Authority ("Authority") has reviewed the draft report of the General Accounting Office ("GAO") on the GAO review of the Authority's audited financial statements covering Fiscal Years 1996 and 1995. We appreciate your finding that the statements were prepared in accordance with generally accepted accounting principles used by state and local governmental entities. The Authority offers the following responses to the observations made by GAO.

- While we agree that a Management Discussion and Analysis (MD&A) section enhances an annual report, the audited financial statements are not intended to address the Authority's performance and accomplishments during the reporting year. As you know, the Authority is required under Sec. 224 of P.L. 104-8 to provide to the Congress an annual report on the progress and activities of the Authority toward meeting the objectives of the D.C. Financial Responsibility and Management Assistance Act.
- The Authority will consider adding to future statements descriptive notes relating to certain balances and accounts held by the Authority for the benefit of the District.
- We believe that the presentation of the Authority's general fund revenues and expenditures conforms with applicable accounting principles. We recognize, however, that users of this information who are not familiar with those principles may require more explanation.
- Concerning disclosures in Note 2 of the statements, the Authority agrees that the reference to the "Proprietary Fund" should be deleted and that the reference should have been to the "Combined Statement of Revenues, Expenditures and Changes in Fund Balance".
- We agree with Note 3, that more detailed information regarding the type of reimbursements due from the District could be useful to readers.

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ENCLOSURE

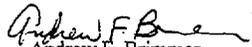
ENCLOSURE

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• While Note 5 conforms with the applicable accounting principles, we recognize that readers who are not familiar with accounting principles may welcome additional information.

We hope that our response is helpful and we will consider your observations during the preparation of our future statements. Should you have further questions concerning the Authority's audited financial statements, please contact John Hill, Executive Director at (202) 504-3400.

Sincerely,


Andrew F. Brimmer
Chairman

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